

**SCHEDULES M-1 and M-2
(Form 1120-F)**Department of the Treasury
Internal Revenue Service

Name of corporation

**Reconciliation of Income (Loss) and Analysis of
Unappropriated Retained Earnings per Books**

▶ Attach to Form 1120-F.

OMB No. 1545-0126

2007

Employer identification number

Schedule M-1**Reconciliation of Income (Loss) per Books With Income per Return****Note:** Schedule M-3 may be required instead of Schedule M-1—see instructions.

1 Net income (loss) per books		7 Income recorded on books this year not included on this return (itemize):	
2 Federal income tax per books		a Tax-exempt interest \$	
3 Excess of capital losses over capital gains		b Other (itemize):	
4 Income subject to tax not recorded on books this year (itemize):			
5 Expenses recorded on books this year not deducted on this return (itemize):		8 Deductions on this return not charged against book income this year (itemize):	
a Depreciation \$		a Depreciation \$	
b Charitable contributions \$		b Charitable contributions \$	
c Travel and entertainment \$		c Other (itemize):	
d Other (itemize):			
6 Add lines 1 through 5		9 Add lines 7 and 8	
		10 Income—line 6 less line 9	

Schedule M-2**Analysis of Unappropriated Retained Earnings per Books per Return**

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income (loss) per books		b Stock	
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
4 Add lines 1, 2, and 3.		7 Add lines 5 and 6	
		8 Balance at end of year (line 4 less line 7)	

Specific Instructions

Line 1. Net income (loss) per books. The foreign corporation must report on line 1 of Schedule M-1 the net income (loss) per the set or sets of books taken into account on Schedule L. The foreign corporation must report on line 1 of Schedule M-2 the balance of unappropriated retained earnings per the set or sets of books taken into account on Schedule L.

Do not complete Schedules M-1 and M-2 if total assets at the end of the tax year (line 15, column (d) of Schedule L) are less than \$25,000.

Complete Schedule M-3 in lieu of Schedule M-1 if total assets at the end of the tax year are \$10 million or more.

Line 5c. Travel and entertainment expenses. Include any of the following:

- Meal and entertainment expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual over \$2,000 that are allocable to conventions on cruise ships.
- Employee achievement awards over \$400.
- The cost of entertainment tickets over face value (also subject to the 50% limit under section 274(n)).
- The cost of skyboxes over the face value of nonluxury box seat tickets.

• The part of luxury water travel expenses not deductible under section 274(m).

• Expenses for travel as a form of education.

• Other nondeductible travel and entertainment expenses.

For more information, see Pub. 542.

Line 7a. Tax-exempt interest.

Report any tax-exempt interest received or accrued, including any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company. Also report this same amount in item N at the bottom of page 2 of the form.

